

KENTUCKY ECONOMIC INDICATORS

December 2005 Indicators as of February 27, 2006

KY Composite Index of Leading Indicators increased 2.0 percent in December.

- The Leading Index increased for the third consecutive month.
- The Leading Index rose by 1.4 percent over the same month last year.
- Four components were positive and one was unchanged.
 - + KY Labor Intensity Index increased 0.1 percent.
 - + The US Leading Index increased 3.5 percent.
 - + The KY Index of Initial UI Claims increased 6.2 percent.
 - + US Retail Sales increased 4.6 percent.
 - The Louisville Help Wanted Index was unchanged at 52 points.

Component weights for December are 52.97, 19.72, 14.85, 10.71 and 1.75 respectively.

KY Composite Index of Coincident Indicators increased 4.7 percent in December.

- The Coincident Index is positive for the fourth consecutive month.
- Same-month-last-year growth is positive for the twenty-ninth consecutive month at 1.1 percent.
- Component indicators were all positive, 3:0.
 - + KY Total Nonagricultural Employment increased 0.6 percent.
 - + US Industrial Production Index increased 11.4 percent.
 - + US Personal Income Less Transfers increased 4.7 percent.

Component weights for December are 33.71, 30.17 and 24.88 respectively. Component weights do not sum to one because the two US components were discounted to allow the Kentucky component more weight.

The Kentucky Leading Index increased for the third consecutive month. The index has now recovered 166 percent of the losses sustained in the 2001 recession. The previous peak of 117.1 was reached in March 2000. The previous trough of 112.6 was reached in September 2001. The trend growth rate has declined over the past 20 months, but is still solid. Between May 2003 and March 2004, the index grew on average 3.97 percent per month. Between April 2004 and December 2005, the index grew on average 1.31 percent per month. The index has performed reasonably well in the wake of Hurricane Katrina also. The average growth rate in the four months following Katrina is 2.40 percent with only one month of negative growth.

Four of the five index components were positive for December. The fifth component was unchanged. The Kentucky Labor Intensity Index has increased for three consecutive months. These last three months of growth allowed it to just surpass its level from December 2004. The Labor Intensity Index was showing some modest gains from April 2003 to December 2004. Since then, it has not shown a clear trend. Both employment and average weekly hours have shown nearly no monthly movements in the last four months, which is surprising even for the Labor Intensity Index, which has the lowest variance of the five Leading Index components.

The US Leading Index was also positive for the third consecutive month. The index has now recovered 697 percent of the losses sustained in the 2001 recession. The previous peak of 116.2 was reached in April 2000. The previous trough of 112.2 was reached in September 2001. The US Leading Index performed better than the Kentucky Leading Index from 2001 throughout 2003. However the Kentucky Leading Index has been more stable throughout 2005 than the US Leading Index. The variance in monthly growth rates for the US Leading Index in 2005 is 49.9. The variance in monthly growth rates for the Kentucky Leading Index in 2005 is 7.7. The US Leading Index was about seven times more variable than the Kentucky Leading Index during the 2005 calendar year. Kentucky is clearly in a stable state of expansion right now and the Kentucky Leading Index bears this out.

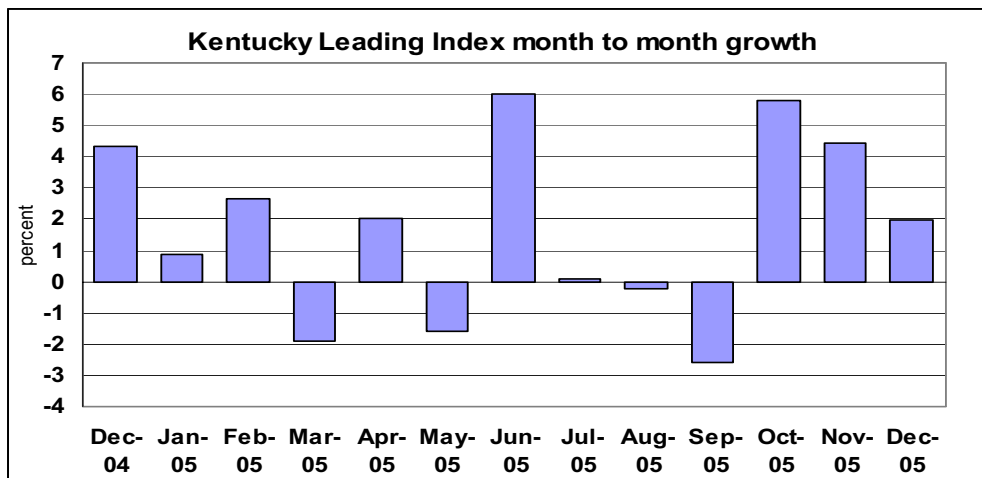
Kentucky Nonagricultural Employment improved in December surpassing its October level by 700 jobs. Kentucky Nonagricultural Employment has now recovered 84.8 percent of the losses sustained in the 2001 recession. It is common after a recession for employment recovery to lag Personal Income and Retail Sales recoveries. However, Kentucky Nonagricultural Employment has grown especially slowly for the last six months. The average of seasonally adjusted annual month-to-month growth rates for the last six months is 0.28 percent. This is low by any standard for an expansion period. The historical average of seasonally adjusted annual month-to-month growth rates from 1978 to December 2005) is 1.62 percent. Losses in Kentucky Manufacturing Employment continue to hurt the aggregates as well. Kentucky Manufacturing Employment declined for the second consecutive month by 2.2 percent.

Kentucky Leading Index Diffusion Index computation note:

The November Diffusion Index was computed with zero percent growth months as positive. This month the index has been recomputed such that only positive growth months receive a one (1) count when computing the index. Months with zero

percent growth are counted as zeroes during the computation process. This is the conventional approach in the literature and it provides more functional information during expansions.

Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the University of Kentucky Center for Business and Economic Research *Kentucky Annual Economic Report, 2000*.



About the Indicators

Kentucky Reference Series

Inflation-adjusted personal income less transfer payments and policy-adjusted general fund tax receipts are combined to form the GOEA composite reference series.

Kentucky Leading Indicators

- **GOEA Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: Lumber products, chemical and allied products, rubber and plastic products, fabricated metals, and transportation equipment.
- **GOEA Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky UI claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- **Louisville Help-wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.
- **U.S. Manufacturing and Trade Sales:** This series outperformed Kentucky sales tax receipts and U.S. total retail sales. Current manufacturing and trade sales help form the basis for business expectations for the immediate short run. Since production and investment do not occur instantaneously, the formation of expectations (manifested through current manufacturing and trade sales) should slightly lead the business cycle.
- **GOEA U.S. Leading Index:** We eliminated two variables, UI Claims and weekly hours, from the U.S. leading index since we already use the Kentucky equivalents. The remaining eight components of the U.S. leading index were tested, eliminating both the interest rate spread and the slower deliveries diffusion index of vendor performance. The remaining six components were then re-indexed by GOEA.

Table Notes:

- 1) Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- 2) More information is available on our website, www.osbd.ky.gov

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**SELECTED KENTUCKY ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

	2005												
	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
KY Leading Index (1992=100)	118.4	118.5	118.7	118.5	118.7	118.6	119.2	119.2	119.1	118.9	119.4	119.9	120.1
	4.3	0.8	2.7	-1.9	2.0	-1.6	6.0	0.1	-0.2	-2.6	5.8	4.4	2.0
	1.9	1.9	1.8	1.0	1.3	0.9	1.4	1.6	1.3	1.0	1.4	1.6	1.4
KY Leading Index Diffusion Index	66.7	66.7	60.0	56.7	60.0	56.7	56.7	53.3	53.3	53.3	53.3	60.0	60.0
KY Coincident Index (1992=100)	133.3	132.2	132.5	132.6	132.6	132.9	133.5	133.5	132.2	132.9	133.5	134.3	134.8
	16.4	-9.4	2.4	0.9	0.5	2.2	5.5	0.1	-10.9	6.9	5.6	6.7	4.7
	3.3	2.3	2.2	2.3	2.0	1.9	2.5	2.3	1.0	1.7	1.6	2.0	1.1
KY Nonag Employment (000s)	1,802.7	1,802.4	1,803.6	1,807.1	1,815.1	1,816.7	1,821.2	1,817.3	1,821.1	1,822.9	1,822.9	1,822.7	1,823.6
	1.3	-0.2	0.8	2.4	5.4	1.1	3.0	-2.5	2.5	1.2	0.0	-0.1	0.6
	0.7	0.7	0.7	0.8	1.0	1.3	1.4	1.5	1.4	1.4	1.2	1.2	1.2
KY Mfg Employment (000s)	264.2	264.6	264.5	265.1	266.0	266.4	265.4	259.6	265.7	265.5	265.9	265.7	265.2
	-2.2	1.8	-0.5	2.8	4.2	1.8	-4.4	-23.3	32.1	-0.9	1.8	-0.9	-2.2
	-0.2	0.0	0.0	0.3	0.7	0.7	0.5	0.5	0.4	0.4	0.2	0.4	0.4
KY Unemployment Rate (%)	4.7	5.0	5.2	5.3	5.6	5.7	5.7	5.9	5.4	5.7	6.1	6.2	6.3
	103.0	102.8	104.0	103.4	103.6	102.6	103.4	103.3	102.9	100.1	102.3	103.2	103.7
KY Index of Initial UI Claims	7.0	-2.6	14.2	-6.3	2.7	-11.5	10.3	-1.6	-4.2	-28.6	30.9	10.4	6.2
	1.7	1.0	2.6	1.3	1.5	0.2	1.0	1.6	0.8	-2.5	-0.4	0.7	0.6
	105.3	105.7	105.5	105.6	105.7	105.7	105.5	105.2	105.3	105.2	105.3	105.4	105.5
KY Labor Intensity Index (1992=100)	1.5	3.6	-1.2	1.1	0.8	-0.4	-2.1	-2.8	0.4	-0.5	1.3	1.2	0.1
	0.8	1.0	0.8	0.7	0.7	0.6	0.4	0.4	0.1	0.0	0.2	0.2	0.1
	41.0	42.0	41.0	40.0	38.0	39.0	41.0	41.0	46.0	56.0	54.0	52.0	52.0
Louisville HWI (1992=100)	-25.1	33.5	-25.1	-25.6	-46.0	36.6	82.2	0.0	297.8	959.6	-35.4	-36.4	0.0
	-28.1	-16.0	-25.5	-28.6	-25.5	-18.8	-19.6	-8.9	-2.1	40.0	31.7	23.8	26.8
	709.7	659.6	500.8	568.6	808.4	525.6	738.7	573.9	555.1	778.4	632.7	631.1	836.3
GF Total Tax Receipts (\$ mill)	5.0	13.1	8.3	11.7	12.1	9.6	16.6	10.5	8.1	18.8	12.3	7.4	17.8
	217.7	271.4	176.3	200.1	224.2	216.1	219.6	238.5	217.4	229.6	235.6	218.6	228.8
GF Sales & Use Receipts (\$ mill)	4.7	8.8	7.5	8.2	3.1	5.1	9.9	5.5	2.7	11.1	5.2	8.7	5.1
	259.0	252.6	231.5	176.1	413.7	215.3	266.3	238.1	250.8	278.0	259.3	234.0	254.3
GF Income Tax Receipts (\$ mill)	4.6	21.9	6.6	24.0	12.8	13.6	-1.4	6.2	2.2	2.1	3.8	1.7	-1.8

SELECTED U.S. ECONOMIC INDICATORS SEASONALLY ADJUSTED

	2005													
	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	
US Leading Index (1996=100)	136.1	135.8	136.3	135.4	135.5	135.6	137.1	136.9	137.0	135.8	136.9	138.2	138.6	
% Chg Previous Month SAAR	8.3	-2.6	4.5	-7.6	0.9	0.9	14.1	-1.7	0.9	-10.0	10.2	12.0	3.5	
% Chg Same Month Last Year	5.2	4.2	4.4	2.3	2.3	1.7	2.5	2.0	1.9	1.0	1.9	2.2	1.8	
US Coincident Index (1992=100)	119.9	119.2	119.3	119.4	119.5	119.8	120.2	120.5	119.5	120.1	120.5	121.2	121.5	
% Chg Previous Month SAAR	15.1	-6.8	1.0	1.0	1.0	3.1	4.1	3.0	-9.5	6.2	4.1	7.2	3.0	
% Chg Same Month Last Year	3.6	2.9	2.8	2.4	2.3	2.2	2.6	2.6	1.4	2.0	1.9	2.3	1.3	
US Nonag Employment (Mil.)	132.4	132.5	132.7	132.9	133.1	133.2	133.4	133.6	133.8	133.8	133.9	134.2	134.4	
% Chg Previous Month SAAR	1.5	0.7	2.4	1.3	2.1	1.0	1.5	2.2	1.6	0.4	0.3	3.2	1.3	
% Chg Same Month Last Year	1.6	1.6	1.7	1.6	1.5	1.4	1.5	1.6	1.7	1.6	1.3	1.5	1.5	
US Unemployment Rate (%)	5.4	5.2	5.4	5.1	5.1	5.1	5.0	5.0	4.9	5.1	4.9	5.0	4.9	
US Initial Claims for UI (000s)	330.0	330.1	307.4	337.8	321.9	334.7	320.7	316.7	317.0	404.7	350.5	322.8	316.9	
% Chg Previous Month SAAR	-13.8	0.4	-57.5	210.1	-43.9	59.7	-40.1	-14.0	1.1	1,774.5	-82.2	-62.8	-19.9	
% Chg Same Month Last Year	-8.7	-7.0	-13.7	-1.9	-6.8	-2.6	-5.6	-7.5	-6.9	17.3	3.5	-3.4	-4.0	
US Industrial Production Index	106.7	106.9	107.4	107.3	107.2	107.4	108.3	108.3	108.6	107.2	108.4	109.5	110.5	
% Chg Previous Month SAAR	8.3	2.3	4.7	-0.5	-1.4	2.8	10.0	-0.2	3.5	-14.7	14.6	13.7	11.4	
% Chg Same Month Last Year	4.4	4.2	3.7	4.0	3.1	2.4	3.7	3.1	3.1	2.0	2.4	3.3	3.6	
US Personal Income Less Trans. (Bil. 92\$)	8,071.9	7,794.2	7,811.7	7,820.2	7,798.6	7,822.9	7,862.9	7,890.1	7,543.9	7,828.8	7,864.4	7,934.0	7,964.7	
% Chg Previous Month SAAR	64.0	-34.3	2.7	1.3	-3.3	3.8	6.3	4.2	-41.6	56.0	5.6	11.2	4.7	
% Chg Same Month Last Year	7.2	3.4	3.4	3.5	2.9	3.1	3.7	3.4	-1.4	2.5	2.0	2.4	-1.3	
CPI, All Urban (1982-84=100)	191.2	191.4	192.1	193.2	194.1	194.0	193.9	195.1	196.2	198.6	199.1	197.8	197.7	
% Chg Previous Month SAAR	0.0	1.3	4.5	7.1	5.7	-0.6	-0.6	7.7	7.0	15.7	3.1	-7.6	-0.6	
% Chg Same Month Last Year	3.3	3.0	3.0	3.2	3.5	2.9	2.5	3.1	3.6	4.7	4.4	3.5	3.4	
US Retail Sales (Bil. 84\$)	337.4	335.9	339.0	340.1	346.1	344.9	351.3	357.3	350.7	351.8	352.5	355.7	357.0	
% Chg Previous Month SAAR	17.7	-5.2	11.5	3.9	23.4	-3.9	24.6	22.4	-19.9	3.7	2.6	11.2	4.6	
% Chg Same Month Last Year	9.2	7.7	8.0	6.0	9.1	6.3	9.8	10.3	8.2	6.6	5.9	6.8	5.8	
Manufacturing & Trade Sales (000s)	936.9	940.2	933.1	932.9	937.8	944.3	948.4	950.4	951.8	944.2	945.9	955.9	*953.8	
% Chg Previous Month SAAR	17.1	4.3	-8.8	-0.3	6.5	8.6	5.3	2.6	1.8	-9.1	2.1	13.5	-2.5	
% Chg Same Month Last Year	5.6	6.1	4.9	2.1	3.5	3.8	4.2	3.8	3.4	2.5	2.5	3.4	1.8	
US Consumer Expectations (1966=100)	90.9	85.7	84.4	82.8	77.0	75.3	85.0	85.5	76.9	63.3	63.2	69.6	80.2	
% Chg Previous Month AR	117.5	-50.7	-16.8	-20.5	-58.2	-23.5	328.0	7.3	-72.0	-90.3	-1.9	218.2	448.0	
% Chg Same Month Last Year	1.2	-14.4	-4.6	-6.8	-11.8	-7.7	-4.0	-6.3	-12.8	-28.1	-24.6	-18.3	-11.8	
Ave. Prime Interest Rate (%; NSA)	5.14	5.25	5.49	5.58	5.75	5.98	6.01	6.25	6.44	6.59	6.75	7.00	7.15	
ARIMA estimation														

* ARIMA estimation